

**CITY OF NEWBURGH
INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)
NEWBURGH, NEW YORK
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2008**

CITY OF NEWBURGH, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
City of Newburgh Industrial Development Agency
83 Broadway
Newburgh, New York 12550

We have audited the accompanying financial statements of the business-type activities of the City of Newburgh, New York Industrial Development Agency (the Agency), a component unit of the City of Newburgh, as of for the year ended December 31, 2008. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our report.

In our opinion, the financial statements referred to above present fairly, in all material respects, the Statement of Net Assets of the City of Newburgh, New York Industrial Development Agency, as of December 31, 2008. However, as discussed in Note 11 we were unable to express and we do not express, an opinion on the Statements of Revenues, Expenses and Changes in Net Assets and Cash Flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis, listed in the Table of Contents, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

The audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information on the Schedule of Supplemental Information on page 14 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information, except for the number of current full-time employees on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated April, 29 2010 on our consideration of the City of Newburgh Industrial Development Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report on compliance with laws and regulations and internal control over financial reporting is an integral part of an audit performed in accordance with *Government Auditing Standards* and, in considering the results of our audit, this report should be read in conjunction with this report in considering the results of our audit.

Sedore + Company, CPAs

Poughkeepsie, New York
April 29, 2010

CITY OF NEWBURGH, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2008

The following "Management's Discussion and Analysis" report (MD&A) provides the reader with an introduction and overview to the financial activities and performance of the City of Newburgh Industrial Development Agency for the year ended December 31, 2008, as mandated by GASB #34. This information should be reviewed in conjunction with the audited financial statements of the Agency.

FINANCIAL OPERATIONS HIGHLIGHTS

There was an increase in Net Assets in 2008 of \$695,195.

SUMMARY OF REVENUES AND EXPENSES

<u>REVENUES:</u>	<u>2008</u>	<u>2007</u>
Fees	\$105,993	\$134,569
Gain on Sale of Property	605,100	-0-
Other	191,500	-0-
Interest Earnings	<u>26,864</u>	<u>89,585</u>
Total Revenues	<u>\$929,457</u>	<u>\$224,154</u>
<u>EXPENSES:</u>		
Operating Expenses	<u>\$234,262</u>	<u>\$830,025</u>
Total Expenses	<u>\$234,262</u>	<u>\$830,025</u>

**CITY OF NEWBURGH, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
DECEMBER 31, 2008**

FINANCIAL POSITION SUMMARY

Net Assets serve as an indicator of the Agency's financial position. The Agency's Net Assets were \$484,019 as of December 31, 2008.

For details of the Agency's finances, see the accompanying financial statements and Notes thereof.

FINANCIAL STATEMENTS

The Agency's financial statements are prepared in accordance with generally accepted accounting principles, as promulgated by the Governmental Accounting Standards Board (GASB). The Agency is structured as an enterprise fund.

CITY OF NEWBURGH INDUSTRIAL DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE CITY OF NEWBURGH)
STATEMENT OF NET ASSETS
DECEMBER 31, 2008

<u>ASSETS</u>	<u>2008</u>
Current Assets:	
Cash and Cash Equivalents	\$ 188,906
Accounts Receivable	73,979
Real Property Held for Sale or Development	197,000
Total Current Assets	<u>459,885</u>
Other Assets:	
Note Receivable	564,151
Due from the City of Newburgh	190,000
Due from City of Newburgh Local Development Corporation (Net of \$752,740 Allowance for Doubtful Accounts)	-
Total Other Assets	<u>754,151</u>
 TOTAL ASSETS	 <u><u>\$ 1,214,036</u></u>
 <u>LIABILITIES AND NET ASSETS</u>	
Current Liabilities:	
Accrued Liabilities	\$ 20,750
Security Deposits	6,000
Deferred Revenue - current	23,952
Total Current Liabilities	<u>50,702</u>
Non-Current Liabilities:	
Deferred Revenue	483,145
Judgment and claims	196,170
Total Non-Current Liabilities	<u>679,315</u>
 Total Liabilities	 730,017
 Net Assets:	
Unrestricted	<u>484,019</u>
 Total Net Assets	 <u>484,019</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 1,214,036</u></u>

The Independent Auditors' Report and the Notes to the Financial Statements
should be read in conjunction with these financial statements.

CITY OF NEWBURGH INDUSTRIAL DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE CITY OF NEWBURGH)
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2008

<u>OPERATING REVENUES:</u>	<u>2008</u>
Lease Income	\$ 105,993
Total Operating Revenues	<u>105,993</u>
<u>OPERATING EXPENSES:</u>	
Personnel	406
Office and Operations	21,621
Contractual and Project Costs	<u>212,235</u>
Total Operating Expenses	<u>(234,262)</u>
Net Operating Revenues (Expenses)	<u>(128,269)</u>
<u>NON-OPERATING REVENUES (EXPENSES):</u>	
Interest Income	26,864
Gain (loss) on Sale of Property	605,100
Other Revenues	<u>191,500</u>
Net Non-Operating Revenues (Expenses)	<u>823,464</u>
Excess of Revenues or (Expenses)	695,195
Net Assets, January 1, 2008	(666,716)
Prior Period Adjustment (Note 12)	<u>455,540</u>
Net Assets, restated, January 1, 2008	(211,176)
Net Assets, December 31, 2008	<u>\$ 484,019</u>

The Independent Auditors' Report and the Notes to the Financial Statements
should be read in conjunction with these financial statements.

CITY OF NEWBURGH INDUSTRIAL DEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE CITY OF NEWBURGH, NEW YORK)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008

	<u>YEAR ENDED</u> <u>2008</u>
Cash Flows from Operating Activities:	
Receipts from providing services	\$ 68,190
Payments to contractors	<u>(237,298)</u>
Net cash (used) by operating activities	<u>(169,108)</u>
Cash Flows from Non Capital Financing Activities:	
Repayments & Settlements to the City of Newburgh	\$ (398,402)
Net cash (used) by Non capital financing activities	<u>(398,402)</u>
Cash Flows from Investing Activities:	
Gain on Sale of Property	605,100
Net Settlement Revenue received	<u>131,500</u>
Net cash provided by investing activities	<u>736,600</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 169,090
 CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	 <u>19,816</u>
 CASH AND CASH EQUIVALENTS, END OF YEAR	 <u><u>\$ 188,906</u></u>
 Reconciliation of operating income (loss) to net cash provided (used)	
By operating activities	
Operating Income (Loss)	\$ (128,269)
Adjustments to Reconcile Operating Income (Loss) to	
Net Cash Provided by Operating Activities:	
 Changes in Assets and Liabilities:	
Accounts Receivable	(13,851)
Accounts Payable	(11,786)
Accrued Liabilities	8,750
Deferred Revenue	<u>(23,952)</u>
 NET CASH PROVIDED (USED)	
BY OPERATING ACTIVITIES	<u><u>\$ (169,108)</u></u>

The Independent Auditors' Report and the Notes to the Financial Statements
should be read in conjunction with these financial statements.

**CITY OF NEWBURGH, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Note 1 - Summary of Significant Accounting Policies

Organization and Purpose

The City of Newburgh Industrial Development Agency "the Agency" was established on July 22, 1982, for the purpose of encouraging economic growth in the City of Newburgh. It helps with financing arrangements, and has the authority to grant mortgage and sales tax exemptions. The Agency is exempt from Federal, State and local income taxes. For financial statement reporting, the City of Newburgh Industrial Development Agency is a component unit of the City of Newburgh.

The Reporting Entity

The Agency is considered a component unit of the financial reporting entity known as the City of Newburgh. Inclusion in the financial reporting entity, the City of Newburgh, is determined based on financial accountability as defined by GASB Statement No. 14, "The Financial Reporting Entity". Component units are legally separate entities for which the City of Newburgh Industrial Development Agency is financially accountable. The City of Newburgh Council appoints all of the Agency's Board Members. This level of control meets the criteria for financial accountability as defined by GASB Statement No. 14.

Basis of Accounting

The financial statements of the Agency have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Under standards set by GASB, the Agency is considered a proprietary fund. Proprietary fund financial statements are prepared on the accrual basis of accounting, which records the financial effects of transactions and other events when these transactions and events occur. Revenues are recognized when they are earned and expenses are recognized when they are incurred. The measurement focus is the flow of economic resources.

CITY OF NEWBURGH, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
FOR THE YEAR ENDED DECEMBER 31, 2008

Note 1 - Summary of Significant Accounting Policies (Cont'd.)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

Note 2 - Cash, Cash Equivalents and Investments

The Agency's investment policies are governed by New York State statutes. Agency funds must be deposited in FDIC-insured commercial banks or trust companies located within New York State. The Agency is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of the U.S. Treasury and obligations of New York State or its localities.

Collateral is required for demand deposits and certificates of deposit not covered by Federal Deposit Insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

Governmental Accounting Standards Board Statement No. 40 *Deposits and Investment Risk Disclosure*, directs custodial credit risk be disclosed if deposits are not covered by depository insurance, or collateralized by securities held by the Agency or in the Agency's name. Deposits are categorized as either (1) insured by FDIC insurance, (2) collateralized, and for which the securities are held by the pledging financial institution's trust department or agent in the Agency's name or (3) un-collateralized.

Total financial institution (bank) balances at December 31, 2008 were \$759,311. These deposits are categorized as follows:

<u>1</u>	<u>2</u>	<u>3</u>	<u>Carrying Value</u>
\$250,000		\$509,311	\$ 759,311

Deposits balances differ from amounts on financial statements by outstanding checks and deposits in transit.

CITY OF NEWBURGH, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
FOR THE YEAR ENDED DECEMBER 31, 2008

Note 3 – Real Property Held for Sale or Development

Real property held for sale or development includes various real estate parcels in the City of Newburgh carried at the estimated market value of the property at the time of transfer to the Agency or historical value. These properties are typically transferred to the Agency by the City of Newburgh or the State. As of December 31, 2008 the historical value of the Agency's Real Property Held for Sale or Development amounted to \$197,000.

Note 4 – Notes Receivable

The Agency had an investment interest in a local property. In 2006 the property was sold to the City of Newburgh and the City assumed the properties obligations. Currently, the amount of the investment plus interest is payable to the Agency. Notes receivable consist of the following at December 31, 2008:

Notes Receivable due from City of Newburgh	
Original amount	\$ 493,528
Accrued interest at 5%	<u>70,623</u>
Total Notes Receivable at December 31, 2008	<u><u>\$ 564,151</u></u>

As of December 31, 2008, the Agency is due \$752,740 from the City of Newburgh Local Development Corporation (LDC). This receivable has been reserved in the amount of \$752,740 since the LDC does not currently have sufficient working capital to be able to make payments to the Agency. However, the LDC also had an interest in the property sold in 2006 and should receive some proceeds from the sale to pay some of the balance owed to the Agency.

Note 5 – Balance Due From the City of Newburgh

Prior to 2008 the City of Newburgh and the Agency director allocated expenses to the Agency for City resources it used (office space, telephone, salaries, benefits etc.). It was determined that the City had inadvertently been overcharging the Agency. As a result the City was required to reimburse the Agency in the amount of \$190,000 and is noted as a Due From the City of Newburgh as of December 31, 2008.

CITY OF NEWBURGH, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
FOR THE YEAR ENDED DECEMBER 31, 2008

Note 6 – Deferred Revenue

Deferred rental revenue at December 31, 2008 consists of three long-term leases of property owned by the IDA. The first lease term is for 60 years, where the last 40 years are payable at \$100 per year. As such, the rental receipts to be received for the first 20 years, totaling \$663,599, are deferred and recognized as income over the 60 year lease term. The second lease has a term of 48 years, with total rents received in advance of \$5,000, which are being recognized over the 48-year term of the lease. The third lease term is for 10 years, with total rents received in advance of \$118,300, which are being recognized over the 10 year term of the lease. As of December 31, 2008, deferred revenue of the agency amounted to \$507,097, \$23,952 of which is considered short term.

Note 7 – Judgment and Claims

The IDA and the City of Newburgh jointly applied for and received a grant from the U.S Department of Commerce and for the periods from 2003 until 2006, incurred costs to develop certain properties within the City. The grant for this project was to partially (68.63%) reimburse the costs of development. The matching portion (31.37%) was a local share but it was unclear in the contracts which entity was responsible for this share. As of December 31, 2008 there is an estimated liability booked for a possible exposure in the amount of \$196,170 which represents 50% of the unreimbursed eligible costs of the project. Actual exposure could be higher pending the outcome of a settlement.

Note 8 – Operating leases

The following is a five-year schedule of minimum future rentals or non-cancelable operating leases including anticipated renewal periods as of December 31, 2008.

<u>Year</u>	<u>Rental Income</u>
2009	\$ 54,491
2010	56,368
2011	58,312
2012	60,324
2013	62,407
2014-2040	1,200,158
Total	<u>\$ 1,492,060</u>

**CITY OF NEWBURGH, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
FOR THE YEAR ENDED DECEMBER 31, 2008**

Note 9 - Industrial Revenue Bond and Note Transactions

Certain revenue bonds and notes authorized by the Agency and issued through various lending institutions are considered special obligations of the Agency. They are secured by property, which is leased to private companies and educational institutions and are usually retired by the related lease payments. The bonds and notes are not guaranteed by the Agency, or by the City of Newburgh. Recourse by the lending institutions and ultimate bondholders is limited to the collateralized properties and related lease revenues. Therefore, the Agency does not record the assets and liabilities resulting from completed bond and note issues in its financial statements since its primary function is to arrange the financing between the borrowers and the bond and note holders, and funds arising there from are normally controlled by trustees or banks acting as fiscal agents. A supplemental schedule of these transactions is provided on page 14.

Note 10 - Tax Exemptions

In 2008, the City of Newburgh Industrial Development Agency lost its ability to provide exemptions from State taxes as a result of not filing required reports with the Office of the State Comptroller and the Authority Budget Office of the State of New York, in a timely fashion. The Agency is currently working to satisfy those requirements.

Note 11 – Disclaimer of Opinion

During 2008, the Agency was operated by the City of Newburgh Economic Development and Planning office. During the year, expense's were comingled and we were unable to satisfy ourselves that all the expenses reported on the Statement of Revenues, Expenses and Changes in Retained Earnings belonged to the Agency.

**CITY OF NEWBURGH, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)
NOTES TO THE FINANCIAL STATEMENTS (CONT'D.)
FOR THE YEAR ENDED DECEMBER 31, 2008**

Note 12 – Prior Period Adjustments

The following prior period adjustments were made to the 2007 financial statements: Fixed Assets were taken off the books since the Agency does not own property that is not available for sale, development or lease. Buildings in the amount of \$335,000, Land in the amount of \$258,630 and related accumulated depreciation of \$197,510 were adjusted to \$0; \$207,520 due to the City of Newburgh for overhead allocations was written off due to the final settlement with the City; \$1,536,325 due to the City of Newburgh and related \$858,345 in grant receivable was adjusted to \$0 due to the Agency not being wholly liable for property development costs, \$196,170 was added as a contingent liability in association with those development costs; \$10,000 due from the Community Development Corporation (an inactive authority) was written down due to being deemed uncollectible; Property Held for Sale or Development was increased \$134,800; Deferred Revenues was increased for \$24,542; Accounts (Lease) Receivable was increased to \$60,128; and several minor adjustments to expenses netting to \$2,033. The net effect of these adjustments was a \$455,540 increase in Net Assets as of December 31, 2007.

OTHER SUPPLEMENTAL INFORMATION

CITY OF NEWBURGH, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)
SCHEDULE OF SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2008

<u>Description</u>	<u>Principal Outstanding at Beginning of Year</u>	<u>Debt Issued During Year</u>	<u>Debt Paid During Year</u>	<u>Principal Outstanding at End of Year</u>	
GEMMA	\$ 4,290,413	\$ -	\$ -	\$ 4,290,413	**
Atlas Textile	7,121,500	-	-	7,121,500	**
Bourne & Kenney	4,000,000	-	-	4,000,000	**
Belvedere Housing, LP	16,781,658	-	-	16,781,658	**
St. Luke's Cornwall Hospital- Parking Garage	21,005,000	-	(595,000)	20,410,000	
	<u>\$ 53,198,571</u>	<u>\$ -</u>	<u>\$ (595,000)</u>	<u>\$ 52,603,571</u>	

Note: These bonds are not obligations of the City of Newburgh Industrial Development Agency.

** Information not available as of the date of this report for this obligation.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
City of Newburgh Industrial Development Agency
83 Broadway
Newburgh, New York 12550

We have audited the financial statements of the business-type activities of the City of Newburgh, New York Industrial Development Agency (the Agency), a component unit of the City of Newburgh, as of and for the year ended December 31, 2008, which collectively comprise the basic financial statements of the Agency and have issued our report thereon dated April 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Newburgh, New York Industrial Development Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City of Newburgh, New York Industrial Development Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of the section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We identified Finding number one and two in the schedule of Findings and Recommendation as a deficiency in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Newburgh Industrial Development Agency, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance as noted in our schedule of Findings and Recommendations as well as other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Chairman, Agency Board, and others within the Agency and is not intended to be, and should not be, used by anyone other than these specified parties.

Sedore & Company, CPAs

Poughkeepsie, New York
April 29, 2010

**CITY OF NEWBURGH, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Current Year Findings:

MATERIAL WEAKNESS:

- Finding 1:** The Agency has not developed and internal control policy and did not have segregation of duties during 2008. A sample of disbursements noted several questionable charges that were identified:
- Several invoices amounting to \$3,750 were paid to vendors for an event put on by the Newburgh Arts Council including such costs as catering, printing and banners. These costs did not appear consistent with the Agency's purpose;
 - Contract for Live Work Learn Play was unclear if it was for the Agency or for the City's Economic Development & Planning department of the City. Costs to this vendor totaled \$13,391 for 2008;
 - Contract with CDIC was for 2005 with no evidence of renewal and was unclear if it was for the Agency or for the City's Economic Development & Planning department of the City. Costs to this vendor totaled \$49,340 for 2008;
 - Contract with UDA was unclear if it was for the Agency or for the City's Economic Development & Planning department of the City. Costs to this vendor totaled \$48,626 for 2008;
 - Costs for copier, computers, internet and cell phones for the Economic Development & Planning office of the City amounted to \$1,005, \$2,379, \$119 and \$642, respectively;
 - Catering for a meeting amounted to \$349;
 - \$1,185 to print Master Plan for Planning Department of the City of Newburgh. \$55 in printing charges for Planning and Development letterhead & \$35 for their business cards;
 - \$365 for 2006 Den Cass Audit and \$1,080 for 2006 LDC audit;
- Cause:** For most of 2008, the Agency was administered by the Economic Development and Planning Department of the City of Newburgh and funds were commingled.
- Effect:** Expenses of the Economic Development and Planning Department of the City of Newburgh were paid using the Agency's funds. Due to this commingling of funds, we had to disclaim our opinion on the Statement of Revenues, Expenses and Changes in Net Assets.

**CITY OF NEWBURGH, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Recommendation:

The Agency should develop an internal control policy and ensure that all expenses of the Agency are in line with the Agency's purpose. The Agency should also segregate duties such as initiating, authorizing and recording transactions.

Finding 2: Significant adjustments were needed to be made to correct the Agency's records.

Cause: The Agency records changed control during the year as well in prior years the Agency's recordkeeping (QuickBooks) was not the original source of financial information for the Agency.

Effect: Interim financial statements printed from this system would have been materially inaccurate.

Recommendation:

The Agency needs to adjust record keeping system to maintain accurate financial reporting; internally and externally. Any audit adjustments should be posted by management.

OTHER MATTERS:

Finding 3: The Agency is not in compliance with Public Authority's Law and has not filed the required PARIS report with the Authority Budget Office (ABO). Subsequently, because of late filing the Agency has lost their right to issue Sales Tax Exemptions.

Cause: Turnover in management and training on PARIS reporting.

Effect: The Agency is listed as not in compliance with the ABO and cannot give Sales Tax Exemptions.

Recommendation:

The Agency must file its PARIS reports as soon as possible.

**CITY OF NEWBURGH, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Finding 4: The Agency has conduit debt obligations that must be reported in their annual audited financial statements as well as in the PARIS report. The Agency has been unable to find the required information for these Revenue bonds.

Cause: Lack of recordkeeping by former management.

Effect: The Agency will risk not being in compliance with Public Authorities Law.

Recommendation:

The Agency must contact the holders of the conduit debt obligation (listed in the supplemental section of the financial statements) and gather the necessary information (amount of bond, amount outstanding and payments during the year) and report it in the PARIS system.

Finding 5: The Agency's bank accounts lacked sufficient collateral. Deposits as of December 31, 2008 amounted to \$759,311. FDIC coverage amounted to \$250,000 leaving \$509,311 of the Agencies deposits uncollateralized.

Cause: Lack of oversight by management.

Effect: The Agency's deposits are subject to risk of bank failure and are required to be reported as under-collateralized

Recommendation:

Governments are required to have collateral for deposits in excess of FDIC coverage. The Agency should pursue collateralization for their deposits.

**CITY OF NEWBURGH, NEW YORK
INDUSTRIAL DEVELOPMENT AGENCY
(A Component Unit of the City of Newburgh)
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Finding 6: The Agency's bank accounts were not interest bearing in 2008.

Cause: Lack of oversight by management.

Effect: The Agency is losing interest earnings.

Recommendation:

The Agency should change bank accounts to interest bearing accounts.

Satisfied findings from prior year: None.



City of Newburgh
INDUSTRIAL DEVELOPMENT AGENCY

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November 1, 2010

Sedore & Company, CPA's, PC
2678 South Road, Suite 101
Poughkeepsie, NY 12603

Re: 2008 Audit – Management Response to Auditors Findings

We are providing this letter in connection with your audit of the financial statements of the City of Newburgh Industrial Development Agency (the Agency), as of December 31, 2008 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the Agency and the respective changes in financial position and, where applicable, the cash flows thereof in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with U.S. generally accepted accounting principles. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

In making the statements below, the undersigned stipulate that:

- (1) none of the current Members served during most of the period of the 2008 Audit nor did they have their first meeting as Members until September 2008;
- (2) the Members were not provided with the Agency's records during 2008 and have no way of confirming that the records subsequently made available are complete or accurate; and
- (3) the individuals serving as the Agency's staff during the period of the 2008 Audit are no longer employed by the Agency nor the City of Newburgh. Current staff were not involved in the Agency's activities during 2008. In fact, the current Director of Planning and Development, who is now the Administrative Director of the Agency, has only been with the City of Newburgh since July 1st.

As a result of this discontinuity, the undersigned and the other Members have very limited knowledge of the Agency's activities and finances during the period of the 2008 Audit. In making the following representations to the best of their knowledge, their knowledge is limited as set forth above. Furthermore, the responses to Findings 1 and 2 involve events that occurred before the Administrative Director assumed his position with the Agency, and therefore he cannot confirm the responses provided.



City of Newburgh

INDUSTRIAL DEVELOPMENT AGENCY

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Management Response to Auditors Findings:

Material Weakness

Finding 1: The Agency has not implemented an internal control policy, and did not have segregation of duties during 2008: On June 15 2008 the City of Newburgh City Council voted to seat seven new members, 100% of the members to the Industrial Development Agency Board, thus ending the practice of members the City Council constituting the Agency. Prior to the City Council meeting of June 15, the IDA still under the previous Board Member's control, authorized the utilization of \$50,000 of the Agency's funds to support the contract between UDA and the City mentioned in the finding. The new Members commenced their duties in September 2008. For the period prior to 2009, there was no apparent separation of records, that is, the Agency's records, records of Newburgh Local Development Corp, the records of Newburgh Community Development Agency, the records of DenCass (a partnership owning certain development properties), as well as records retained by the City's Economic Development Department were lumped together with no method of identifying which records belonged to any of the given agencies.

The Board has moved forward to establish control of the IDA's records. To further management's internal control functions, under the terms of an agreement with the City, the Agency has an office with storage for it's active files. The annual agreement also provides for the City's records management office to maintain it's archived, and attorney-client privileged files. The Agency has separated administrative and financial functions. The Board has adopted a mission statement * which includes performance measurement guidance. In compliance with PAAA 2009, each Board member has signed an Acknowledgement of Fiduciary Duties and Responsibilities (ABO 10-01) form. The Board has filed a Mission Statement and Measurements Report Form* (ABO 10-02). The Board has instituted an internal control policy, consisting of a procurement policy* and investment policy*.

Management expects it has exerted sufficient control policies to abate the conditions in the auditor's finding.

Finding 2: Significant adjustments were needed to correct the Agency's records: Through 2008, the Agency utilized the service of the City's Department of Finance. This practice ended on or about February 2009. Although an agreement executed in 2005, between the City and the Agency prohibited the practice, the City would draft checks from the City's general fund for expenses the City deemed to be related to the Agency. These items were charged as "due from IDA". At each year's end, the Agency records were adjusted to reflect the charges made by the City through the year. Beginning in February 2009, the terms of the 2005 agreement began to be



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honored, and the practice ceased. Current practices utilize contemporaneous entries of all transactions into the Agency's Quickbooks system. The Agency in June 2010 began to maintain and operate in an office set aside for IDA business. All financial records shall be kept and executed in one location.

Management finds it has centralized all transactions to a single system.

Finding 3: The Agency is not in compliance with New York State requirements, and therefore has lost ability to grant new Sales Tax Exemptions: The Agency recognizes it is currently not compliant with PARIS reporting requirement of the Authority Budget Office. This fiscal 2008 audit was due to be filed with the ABO on March 30 2009. The lack of continuity, and lack of records or inability to draw necessary information from the records to become compliant with ABO standards has been the primary challenge of the Authority. Once all audits are complete to 2009, the Agency anticipates compliance with ABO requirements, and having its tax exemption authority reinstated. Management expects it's 2010 audit to be filed in PARIS on or before the date required.

Management finds once it is able to reconcile the pre- 2009 transactions, it will be able to maintain compliance with all requirements of New York Public Authorities.

Finding 4: The Agency has not found records pertinent to its conduit debt obligations. The Agency understands it has conduit debt obligations that must be reported in financial statements as well as PARIS reporting. Corrective action is being taken to acquire the necessary information related to the Revenue bonds. The board has retained multiple bond counsel to assist the Agency in collecting the relevant information.

Finding 5: The Agency's bank accounts lacked sufficient collateral: On August 30, 2010 the Agency executed a collateralization agreement with Key Bank. The agreement ensures sufficient collateral shall protect the Agency's cash funds at all times. The Agency's Investment policy* names several banks in order for the CFO and Treasurer to keep the Agency's cash backed by FDIC coverage. The Agency does not anticipate this finding in the future.

Finding 6: The Agency's bank accounts were not interest bearing in 2008: The Agency acknowledges the bank accounts were not interest bearing in 2008. The Agency's Investment policy* permits the CFO and Treasurer to adjust the Agency's accounts to interest bearing accounts.



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* Policies are available on the Agency's webpage <http://www.cityofnewburgh-ny.gov/gov/IDA.htm>

Sincerely,

Edward Lynch

Administrative Director

Michael Curry

1 NOV 2010

Treasurer